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2007-451-E

June 8, 2007

Howard Nipper
Progress Energy
410 S. Wilmington Street
Raleigh, North Carolina 27601

Re: Hyco Lake Properties
Parcel Nos. 14, 21, 22, 23, & 90G

Dear Mr. Nipper:

In response to your recent request, I am submitting this letter opinion of value of the property referenced above, which will hereafter be referred to as the subject property, or simply the subject. The purpose of this appraisal is to estimate the market value of the subject property's fee simple interest. It is my understanding that the purpose of this appraisal is to aid in pricing the property for negotiations between Progress Energy (my client) and potential buyers.

The appraisal analysis, opinions, and conclusions were developed and this appraisal letter has been prepared in conformance with (and the use of this report is subject to) all regulations issued under Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) and the Uniform Standards of Professional Appraisal Practice (USPAP) 2006 edition as promulgated by the Appraisal Standards Board of the Appraisal Foundation in Washington, DC. Under USPAP this is a restricted report format. Due to the restricted report format, this letter provides limited analysis and conclusion discussion and, therefore, is only intended for Progress Energy's internal decision making. Paramount Appraisal Group takes no responsibility for this letter's unauthorized use.

I certify that I have no present or contemplated future interest in the property beyond these estimates of value. Your attention is directed to the "Limiting Conditions and Assumptions" attached to this letter; acceptance of this letter constitutes an agreement with these conditions and assumptions.

The effective date of this estimate of value is March 8, 2007, the date of my most recent inspection of the property

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There are currently 12 active listings of lake-front lots on Hyco Lake, some of which already include boathouses. These listings are summarized below:

Hyco Lake Active Listings - Summary

MLS No.	Address	Subdivision	Boathouse Included	Acres	Listing
909015	Lot 6 Zane Trail	Hyco Lake	No	0.53	\$159,000
925233	000 Lakeshore	Hyco Lake	No	1.00	\$249,000
928054	Lot 7 Deer Meadow	Deerfield - Hyco Lake	No	1.50	\$265,000
889710	0 Elder Lane	Hyco Lake	No	3.00	\$274,900
928284	Lot 19 Quail Hollow Phase 2	Quail Hollow - Hyco Lake	No	2.19	\$285,000
928023	Lot 6 Deer Meadow	Deerfield - Hyco Lake	No	2.77	\$295,000
928281	Lot 18 Quail Hollow Phase 2	Quail Hollow - Hyco Lake	No	1.36	\$295,000
908870	000 Audubon Drive	Hyco Lake	No	2.92	\$299,000
928259	Lot 16 Quail Hollow Phase 2	Quail Hollow - Hyco Lake	No	3.36	\$315,000
907769	000 Canal Circle	Hyco Lake	No	0.79	\$325,000
909744	000 Duck Pointe	Hyco Lake	Yes	2.87	\$362,000
915477	Lot# 4 Crystal Cove	Hyco Lake/Crystal Cove	Yes	1.99	\$399,900
Average				1.83	\$293,650

There have been seven lake-front lot sales since January 2007 as summarized below:

Hyco Lake 2007 Closed Sales

MLS#	Closed	Address	Subdivision	Boathouse Included	Total Acres	Listing	Sales Price	SP/LP%	DOM
917392	5/31/2007	000 Sunset Point	none	No	1.23	\$289,000	\$265,000	92%	14
910896	4/30/2007	Concord Church Rd.	Hyco Lake	No	1.27	\$289,000	\$265,000	92%	40
906638	4/12/2007	000 South Point Trail	Hyco Lake	Yes	0.65	\$399,000	\$375,000	94%	68
921927	4/10/2007	Lot A Shore Acres	Hyco Lake	No	0.87	\$250,000	\$250,000	100%	0
893490	3/12/2007	Lot 2 Pine Harbor	Hyco Lake	Yes	2.1	\$219,900	\$209,000	95%	121
906708	2/6/2007	Lot 8 Elmore Road	Deer Run	No	1.63	\$199,000	\$192,000	96%	3
906722	1/12/2007	Lot 9 Duck Pointe	Duck Pointe	No	1.01	\$355,000	\$352,500	99%	0
Average					1.25	\$285,842	\$272,642	95%	49

There were a total of 13 lake-front lot sales in 2006 as summarized below:

Hyco Lake 2006 Closed Sales

MLS#	Closed	Address	Subdivision	Boathouse Included	Total Acres	Listing	Sales Price	SP/LP%	DOM
893274	11/3/2006	Lot 19 Crystal Bay	Hyco	Yes	1.03	\$310,000	\$310,000	100%	0
791419	9/5/2006	LOT 13 Cane Creek	Hyco Lake	Yes	2.41	\$299,900	\$241,500	81%	529
846835	9/5/2006	Lot 6 Deer Meadow	Deerfield	No	1.41	\$315,000	\$315,000	100%	173
872736	8/9/2006	Lot #4 Crystal Forest Dr	Crystal Cove	Yes	1.99	\$350,000	\$342,000	98%	0
856814	7/3/2006	0 Hyco Hills	Hyco Hills	No	0.69	\$199,000	\$195,000	98%	21
863467	6/22/2006	Lot#8 Pinecrest Dr.	Hyco/Southport	No	1.00	\$310,000	\$305,000	98%	0
863462	6/7/2006	Lot 18 Oak Pointe	Hyco-Oak Pointe	Yes	0.92	\$310,000	\$300,000	97%	0
831029	4/24/2006	Lot 17 Crystal Cove	Hyco Lake	No	N/A	\$125,000	\$115,000	92%	0
866516	4/20/2006	0 Crystal Cove	Hyco Lake	Yes	1.99	\$310,000	\$290,000	94%	0
842604	3/10/2006	Lot 2 Heron Cove	South Landing	No	0.96	\$240,000	\$225,000	94%	4
821851	3/3/2006	Lot 6 Deer Meadow	Hyco Lake	No	1.41	\$218,000	\$220,000	101%	9
837790	3/3/2006	Lot 7 & 8 Quail Hollow	Hyco Quail	No	9.7	\$350,000	\$345,000	99%	2
840631	2/9/2006	#13 Loxi Lane	Heritage Harbor	Yes	1.08	\$459,900	\$430,000	93%	1
Average					2.05	\$292,861	\$279,500	96%	106

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June 8, 2007

Hyco Lake Properties
Parcel Nos. 14, 21, 22, 23, & 90G
Development Approach

Total Size of Parcel	382 acres			
Projected Number of Lots			150 lots	
Average Lot Price			\$275,000	
Gross Sales Proceeds				
150 lots	x	\$275,000	per lot	=
				<u>\$41,250,000</u>
Less: Estimated Development Costs				
Infrastructure/Development Costs				
Water/Sewer Costs				
\$25,000	x	150 lots	=	(\$3,750,000)
Road Infrastructure				
\$23,200	x	150 lots	=	(\$3,480,000)
Soft Costs/Marketing/Commissions/Contingencies		@	25%	
\$68,750	x	150 lots	=	(\$10,312,500)
Developer's Profit			(15% Gross)	(\$6,187,500)
Estimated Net Proceeds				<u>\$17,520,000</u>
Projected Sellout Period	1.8	per month	7.00 years	
Average Net Proceeds Per Year			\$2,502,857	
Average Net Proceeds Per Quarter			\$625,714	
Annual Discount Rate			20%	
Average Discount Rate Per Quarter			5.00%	
Present Value Factor			14.8981	
(PV of \$1 at quarterly discount rate)				
Present Value of Quarterly Net Proceeds				
\$625,714	x	14.8981		\$9,321,971
Rounded				\$9,320,000

Conclusion

Based on my analysis, I conclude the value of the subject property is in the region of \$24,000 per acre. This is based on a seven-year sellout rate. At nine years, or 1.2 lot sales on average, market value is closer to \$21,000 per acre; and at six years, or 2.1 lot sales on average, market value is approximately \$26,000 per acre. I conclude the following market land value for the subject property; however, I believe a respectable range would be \$21,000 per acre to \$26,000 per acre with a typical marketing period of 12 to 24 months. Given the uncertainty of demand for such a property, I caution that this value conclusion be used as a general guide only. If in fact there are several interested parties, I believe the value could easily be increased to closer to \$30,000 per acre, but due to the risk associated with such a large development, especially given the limited number of sales that have occurred on Hyco Lake within the last two years, I believe a potential buyer/developer would expect a price closer to my value conclusion.

Hyco Lake Properties - Parcel Nos. 14, 21, 22, 23, & 90G

382 acres	x	\$24,000 per acre	\$9,168,000
Rounded			\$9,170,000

LIMITING CONDITIONS AND ASSUMPTIONS

Acceptance of and/or use of this report constitutes acceptance of the following limiting conditions and assumptions; these can only be modified by written documents executed by both parties.

- The basic limitation of this and any appraisal is that the appraisal is an opinion of value, and is, therefore, not a guarantee that the property would sell at exactly the appraised value. The market price may differ from the market value, depending upon the motivation and knowledge of the buyer and/or seller, and may, therefore, be higher or lower than the market value. The market value, as defined herein, is an opinion of the probable price that is obtainable in a market free of abnormal influences.
- I do not assume any responsibility for the legal description provided or for matters pertaining to legal or title considerations. I assume that the title to the property is good and marketable unless otherwise stated.
- I am appraising the property as though free and clear of any and all liens or encumbrances unless otherwise stated.
- I assume that the property is under responsible ownership and competent property management.
- I believe the information furnished by others is reliable, but I give no warranty for its accuracy.
- I have made no survey or engineering study of the property and assume no responsibility for such matters. All engineering studies prepared by others are assumed to be correct. The plot plans, surveys, sketches and any other illustrative material in this report are included only to help the reader visualize the property. The illustrative material should not be considered to be scaled accurately for size.
- I assume that there are no hidden or unapparent conditions of the property, subsoil, or structures that render it more or less valuable. I take no responsibility for such conditions or for obtaining the engineering studies that may be required to discover them.
- I assume that the property is in full compliance with all applicable federal, state, and local laws, including environmental regulations, unless the lack of compliance is stated, described, and considered in this appraisal report.
- I assume that the property conforms to all applicable zoning and use regulations and restrictions unless nonconformity has been identified, described and considered in this appraisal report.
- I assume that all required licenses, certificates of occupancy, consents, and other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained in this report is based.
- I assume that the use of the land and improvements is confined within the boundaries or property lines of the property described and that there is no encroachment or trespass unless noted in this report.
- I am not qualified to detect the presence of floodplain or wetlands. Any information presented in this report related to these characteristics is for this analysis only. The presence of floodplain or wetlands may affect the value of the property. If the presence of floodplain or wetlands is suspected the property owner would be advised to seek professional engineering assistance.
- For this appraisal, I assume that no hazardous substances or conditions are present in or on the property. Such substances or conditions could include but are not limited to asbestos, urea-formaldehyde foam insulation, polychlorinated biphenyls (PCBs), petroleum leakage or underground storage tanks, electromagnetic fields, or agricultural chemicals. I have no knowledge of any such materials or conditions unless otherwise stated. I make no claim of technical knowledge with regard to testing for or identifying such hazardous materials or conditions. The presence of such materials, substances or conditions could affect the value of the property. However, the values estimated in this report are predicated on the assumption that there are no such materials or conditions in, on or in

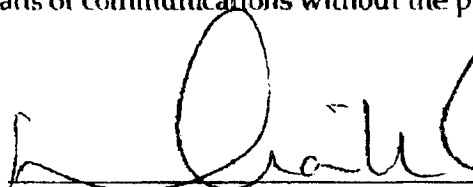
CERTIFICATION - DIANA K. CONN, MAI, CCIM

I certify that, to the best of my knowledge and belief:

- The statements of fact contained in this report are true and correct;
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased professional analyses, opinions, and conclusions;
- I have no present or prospective interest in the property that is the subject of this report and no personal interest with respect to the parties involved;
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment;
- My engagement in this assignment was not contingent upon developing or reporting predetermined results;
- My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of the appraisal;
- My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the *Uniform Standards of Professional Appraisal Practice*;
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives;
- As of the date of this report I have completed the requirements of the continuing education program of the Appraisal Institute;
- I have made a personal inspection of the property that is the subject of this report, and;
- No one provided significant real property appraisal assistance to the person signing this certification.

Disclosure of the contents of this appraisal report is governed by the bylaws and regulations of the Appraisal Institute and the National Association of Realtors.

Neither all nor any part of the contents of this appraisal report shall be disseminated to the public through advertising media, public relations media, news media, or any other public means of communications without the prior written consent and approval of the undersigned.


Diana K. Conn, MAI, CCIM

State Certified General Appraiser #A3737

